



April 13, 2007

Marlene H. Dortch  
Office of the Secretary  
Federal Communications Commission  
455 12th Street, SW, Room TW-A325  
Washington, DC 20554

**EX PARTE COMMENTS ON CHANGES TO E-RATE INVOICING PROCESS**  
**WC Docket No. 05-195**  
**CC Docket No. 02-6**

Dear Ms. Dortch:

The State E-rate Coordinators' Alliance is writing to submit further comments in response to the Commission's Comprehensive Review of the Universal Service Program and specifically several proposals to modify the current E-rate invoicing process.

SECA is strongly opposed to any proposal to eliminate discounted bills, and replace that process with a reimbursement system whereby the applicant would be required to pay, at a minimum, their non-discounted share (applicant fair-share) to the service provider each billing period. The applicant would then seek reimbursement from USAC for the discounted portion and, once received, the applicant would transmit this funding to the service provider.

Similarly, SECA also is strongly opposed to any proposal that would require the applicant to pay the vendor 100% of the vendor recurring or non-recurring invoice and then seek reimbursement from USAC for the discounted portion.<sup>1</sup>

SECA is delighted that the Commission is considering streamlining the E-rate application process but, unfortunately, any proposal that shifts the discounting process to the applicant is much more burdensome for all parties than the current process and especially disadvantages the poorest applicants.

The following are our concerns, categorized by impact on specific parties.

**1) Applicants**

a. The burden of invoicing is being shifted from providers to applicants. Instead of receiving automated monthly discounted bills from providers, who typically have substantially more resources to devote to such discounted bills and automated billing systems, applicants would be required to submit, in essence, 12 monthly BEARs. Applicants that have more resources and that can afford to pay their bills upfront and seek reimbursement only at the end of the funding year would not be affected as heavily; it will be the poorest or smallest applicants which use discounted bills that would bear the burden of this new process. The Wireline Competition Bureau's recent Order DA 07-1272 granting the AT&T Petition to approve the alternative reimbursement form ("AFR"), implements this similar approach and SECA objects

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<sup>1</sup> Indeed, at least one populous state, California, which operates a state universal service program which is complementary to the E-rate program, has advised participating carriers that the state discounts must be provided on monthly bills. As a practical result, these carriers likely provide discounted bills for not only the state program, but also the E-rate program. Any kind of mandatory directive that applicants must be required to pay 100% of their billed charges – regardless of the supposed timing of USAC processing of invoices for discounts -- would be very disruptive and detrimental to the existing state program.

to the approach for all of the reasons set forth in its Petition for Reconsideration filed today, in which it requested the WCB to rescind the Order.<sup>2</sup> This procedure negates the benefits of discounted bills and puts the burden of filing yet another E-rate form onto applicants. The approach requiring applicants to apply monthly for payment of the discounted portion of services, and then remit the payment to the service provider, is another variation of the current BEAR process – *not* a modification and certainly not an improvement of the discounted bills process.

b. The assumption of the proposal is that the payments from USAC would arrive quickly and therefore vendors would not require 100% up front payments. However, the recent abundance of BEAR denials proves how long it could take for vendors to receive their money. It is likely that vendors would soon require applicants to pay their entire bill upfront.

c. The problem with the current BEAR process is that the BEAR reimbursement check is first sent to the service provider, who cashes it, and then remits payment to the applicant. Should the new proposal be adopted, the “someone in the middle of the reimbursement check” problem would continue to exist because the check would be sent to the “applicant in the middle” instead of the “vendor in the middle.” In general, applicants will be less efficient “middlemen” than service providers.

d. Currently, applicants can choose to either receive discounts on their bills, or receive a check that they can deposit into a bank account or get a credit with the service provider that they can use for equipment or services in the future. The second option is important for many applicants to permit them to utilize the funds for the purpose for which they were intended: increasing the opportunities for advanced technologies in the classroom or library.

## **2) Vendors**

a. Payment from the applicant for the discounted portion of the invoice would be entirely dependent on the action of the applicant thus removing control of this payment from the service provider. Service providers would be forced to follow-up with each customer on a monthly basis to ensure they submitted a BEAR to USAC in a timely manner. In addition, after payment is received by the applicant from USAC, the service providers could be forced to try to extract the payment from the applicant in a timely manner.

b. Service providers would receive numerous small payments from applicants instead of one large reimbursement check from USAC for their many customers. They also would receive two payments from each applicant for each month of recurring services.

c. Most service providers already have invested significant resources into discounted billing systems that have been working well for years. Service providers may have to revise existing late payment charge policies and may be pressured to revise current billing systems to more clearly indicate E-rate ineligible charges.

## **3) USAC**

a. USAC would be required to mail thousands more checks each month. Vendors tend to consolidate their requests as noted above, and they typically use electronic funds transfer, a process which is not available to applicants.

b. USAC likely would be required to provide increased scrutiny of invoices. The service providers know a lot more about ineligible components in their bills (e.g., simple things like added directory listings), which they currently exclude on discounted bills or at least screen out by acting as preliminary reviewers during the BEAR acknowledgment process.

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<sup>2</sup> State E-rate Coordinators Alliance Petition for Reconsideration of Order Approving AT&T Petition for Clarification or, in the Alternative, Waiver of Section 54.514(a) of the Commission's Rules, CC Docket No. 02-6, DA 07-1272 (Released March 13, 2007)(filed April 13, 2007).

In summary, we believe a cornerstone of this program was to provide discounted bills which would assist the poorest schools and libraries. This proposal would hurt the very applicants it was designed to help.

Although removing the vendor from the payment process may provide a more streamlined-looking flowchart, it in no way streamlines the program for applicants, vendors or USAC.

SECA believes the current invoicing process is flawed because it requires BEAR reimbursement payments to flow through the vendor and not be remitted directly to the applicant. We therefore continue to support the proposal submitted in our original NPRM comments whereby BEAR payments are mailed directly to applicants, thereby removing the requirement for the vendor sign-off on the BEAR form, and the convoluted "someone-in-the-middle-of-the-reimbursement check" system. We believe this small change would greatly improve the current process and would truly benefit the applicant and service provider communities.

SECA looks forward to continuing to work with the FCC on program reform and streamlining.

Respectfully submitted,

/s/ Gary Rawson

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Chair

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